

VZCZCXRO6321
PP RUEHCHI RUEHDT RUEHFK RUEHHM RUEHKSO RUEHNAG RUEHNH RUEHPB
DE RUEHHI #0137/01 0500629
ZNR UUUUU ZZH
P 190629Z FEB 09
FM AMEMBASSY HANOI
TO RUEHC/SECSTATE WASHDC PRIORITY 9155
INFO RUEHHM/AMCONSUL HO CHI MINH 5582
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 02 HANOI 000137

EAP/MLS FOR BROWN
USTR FOR DBISBEE

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: [ECON](#) [EAID](#) [EFIN](#) [EINV](#) [KCOR](#) [KPRV](#) [PGOV](#) [VM](#)
SUBJECT: IMPORT LICENSING: A HALF-HEARTED DEFICIT-BUSTING SCHEME

REF: A) 08 Hanoi 1139 ("Reviewing the Trade Agenda ");
B) 08 Hanoi 847 ("Economic Highlights: Import Licensing")

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11. (U) Summary: Vietnam's import licensing regime was implemented in response to the unprecedented rise in imports that caused a record \$18 billion trade deficit in 2008. Although potentially burdensome, the licensing scheme has not inhibited U.S. exports to date and its scope is much narrower than when it was introduced. Despite this, Mission Vietnam continues to engage with the Government of Vietnam to ensure that the system does not become an obstacle in our growing trade relationship. End summary.

AUTOMATIC IMPORT LICENSING COVERAGE

12. (U) Vietnam's automatic import licensing system, introduced in August 2008, requires importers of a wide category of goods to obtain a license from the Ministry of Industry and Trade (MOIT) to get their goods through Customs. Licenses must be issued within five working days and are truly automatic, in that none are turned down. The latest list of goods includes mostly consumer goods like cosmetics, kitchen and house appliances, furniture, cell phones and automobiles. The system, which originally had a sunset clause, was extended indefinitely last December.

JUSTIFICATION: "DO SOMETHING"

13. (SBU) MOIT officials told Econoff that the import licensing system was needed in order for the Government of Vietnam (GVN) to have better statistics on trade flow numbers. MOIT officials claim that Customs does not keep a good record of imports, especially of some consumer goods. (Comment: If this is true, it is hard to understand why the GVN simply doesn't require Customs to keep better numbers or why it is keeping tabs on only 155 tariff line items.) Most observers believe that the timing of the scheme -- at a time when Vietnam's trade deficit was rising rapidly -- was not a coincidence. In private, MOIT officials call the system "a mess," and acknowledge that they were tasked to "do something" about the deficit.

DEFANGING A MUCH-CRITICIZED SYSTEM

14. (U) When the system first came out in August 2008, it immediately came under criticism. Over double the amount of imports were

subject to import licensing, took longer than the required five days, and was laden with red-tape and paperwork. After much criticism, including from businesses in the export sector who claimed the measure would actually exacerbate the deficit by making it harder for them to import the inputs and machinery that they needed, the GVN narrowed down the list, removed export industry inputs and machinery, shortened the issuance time and drew down the number of required documents. The importers applauded the changes. They also welcomed the GVN's leaving the December 2008 sunset clause in place. However, the GVN subsequently reversed its position, and on December 12, 2008 renewed the system indefinitely.

OPEN-ENDED AND STILL POTENTIALLY PROBLEMATIC

15. (SBU) MOIT officials tell us now that they do not know when the system will cease to operate. Criticism has abated ("we haven't had a single complaint about how it operates," they claimed), lessening the pressure on the GVN to put an end to it. Although the deficit has gone down and demand for imports is lower, Vietnam still ran a deficit in January 2009.

COMMENT: KEEPING UP THE PRESSURE

16. (SBU) The GVN remains concerned about trade flows and will be loath to give up a system that helps it identify and target imports in a category that the GVN itself refers to as "non-essential." Mission Vietnam, USTR representatives and other USG interlocutors have raised concerns on import licensing with the GVN on numerous occasions (Reftels), and have discussed it with like-minded missions in Vietnam. Bilateral trade with Vietnam was up 25% in 2008 from the previous year, and our exports were up by over 38%. We will continue to engage with the GVN and our exporters to ensure that import licensing does not affect our trade relationship.

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